

Serbian Hotel Industry Development

Dejana Pavlović¹, Jelena Lazić^{1*}, Janko M. Cvijanović¹

¹ Economic Institute, Belgrade

Abstract: Investing in hotel industry is of immense importance for developing countries. The Republic of Serbia has both potential and opportunities for tourism development. One of the advantages is its favorable territorial position of the country at the intersection of the main roads of Europe and Asia. In this way, Serbia has become very popular destination for Western Europe tourists over the past few years. In the last ten years, investments in hotel industry increased after arrivals the most popular hotel chains. This study aims at providing an overview of previous investments in the hotel industry and analyzing the needs for high category hotels. Special attention was paid to Crowne Plaza Hotel which appeared in the market in December, 2013 and contributed to the development of economic growth in Serbia.

Keywords: hotel industry, foreign direct investment, tourism in Serbia

JEL classification: L83, R11

Развој хотелске индустрије у Србији

Сажетак: Инвестирање у хотелску индустрију је од великог значаја за земље у развоју. Република Србија има потенцијала и могућности за развој туризма, посебно због своје територијалне позиције, с обзиром да се налази на раскрсници главних путева Азије и Европе. Имајући ово у виду, јасно је зашто је Србија постала примамљива дестинација за туристе из Западне Европе у протеклих неколико година. Ова студија има за циљ да прикаже преглед досадашњих истраживања у хотелској индустрији, као и да прикаже потребе за хотелима високе категорије. Посебна пажња је стављена на Crowne Plaza Hotel, чији се бренд на нашем тржишту појавио у децембру 2013. године и допринео економском развоју земље.

Кључне речи: хотелска индустрија, стране директне инвестиције, туризам у Србији

JEL класификација: L83, R11

* jelena.lazic@ecinstitute.org.rs

** This paper represents part of the results of the research project 179001 financed by Ministry of Education, Science and Technological Development of the Republic of Serbia and joint research project "R&D Investment (Case Study of Slovakia and Serbia)" (MPNTR No 680-00-140/2012-09/12) which was presented on the workshop 26.12.2013 in Vrnjačka Banja with participation of Economics Institute, Belgrade, the University of Economics, Bratislava and the Faculty of Hotel Management and Tourism, Vrnjačka Banja.

1. Introduction

Foreign direct investment is defined as a form of investment in a company or any form of company funding where the investor acquires the rights of the ownership control and bears all risks to the business and company operations results. The impact of foreign direct investment is of huge importance for both countries in transition and developing ones. In the 1990s, most of the FDI was directed to the countries of Southeast Europe. In the period 1996 to 2000, the most attractive countries for FDI were Poland, Hungary and the Czech Republic. At the beginning of 1990s, FDI flows were particularly low in our region. The main reason for this was political situation on the Balkans. However, the situation improved after the signing of the Dayton Peace in 1995. In the past ten years, there was a great number of studies on importance of FDI in Eastern Europe which is not surprising, since foreign capital has played an important role in most countries in our region (Meyer, 1998; Kalotay, 2010; Hunya, 2011; 2012).

From Table 1, it can be seen that most FDI comes from developed countries which is the way they control countries in transition and less developed countries in the world. According to the latest data, France is the largest investor, with investments of about 1.5 million US dollars per year. Belgium was the second most important destination for outward stocks in 2011, with amount of 970,000 million US dollars, Canada was the third largest destination for outward stocks, with 670,000 million US dollars in the total.

Table 1: Outward and inward FDI stocks

Outward and inward FDI stocks								
<i>Millions of US dollars</i>								
	Outward direct investment stocks				Inward direct investment stocks			
	2000	2009	2010	2011	2000	2009	2010	2011
Australia	95,978	343,908	414,298	382,197	118,858	428,611	515,981	554,987
Austria	24,820	163,233	170,363	195,756	31,165	172,598	167,958	164,704
Belgium	179,773	891,802	901,924	970,371	181,650	946,549	899,252	998,836
Canada	237,647	593,580	616,134	670,417	212,723	523,247	561,111	595,002
Chile	11,154	41,339	49,838	55,602	45,753	121,395	139,538	144,729
Czech Republic	738	14,805	14,923	15,470	21,647	125,829	128,505	125,245
Denmark	73,117	213,099	219,900	242,243	73,585	154,052	138,747	145,719
Estonia	256	6,410	5,698	4,740	2,611	16,222	16,474	16,726
Finland	52,109	129,195	137,042	138,703	24,272	84,668	85,588	82,864
France	445,087	1,492,563	1,536,081	1,581,384	259,773	985,236	948,442	953,182

Source: (OECD Statistics)

According to the OECD FDI, income in 2008 in the United States amounted to 310 billion U.S. dollars, while in the other countries it was considerably lower. The financial crisis influenced investors to reduce their investments, which resulted in 50% lower rate in 2012.

Dwayer L. & Forsyth P. (1994) have concluded that Japan still holds the leading position as the largest foreign investor in Australia. Therefore, Japanese investment in Australian tourism in the early twentieth century was 67% of the total FDI.

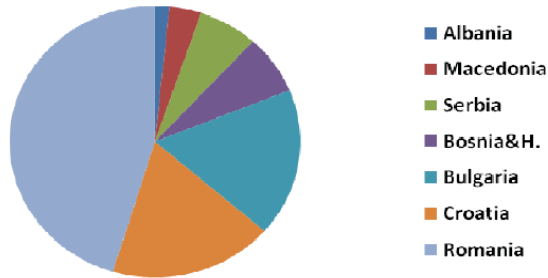
These investments have an important role in the development of tourism in the world, particularly in less developed countries. Among the European countries in transition, Poland, the Czech Republic and Hungary attracted the most foreign direct investment in the

period 1996 to 2006, Romania took the fourth place, while Slovenia and Lithuania had the lowest FDI inflows. Croatia is among the countries with notable success in attracting FDI, regarding the economy size and the economic situation (Франц, 2008).

During the first half of 1990s, a period characterized by major political and economic instability, FDI inflows to SEE were particularly low. By 1996, inward FDI stock in Albania, Bulgaria, Croatia, Macedonia, Romania and FR Yugoslavia (without Bosnia and Herzegovina that in 1992-95 period was at war) amounted to only US\$ 3.4 billion or 5.7 percent of total inward FDI stock in all 27 transition economies. This is rather less than their share (7.7 percent) in total population of the transition region. The situation improved after the signing of the Dayton Peace Accords in 1995, although many SEE countries continued to lag behind the CEE as FDI recipients. Over the whole 1989-2000 period, the inward FDI stock in the seven SEE countries amounted to around US\$ 15.3 billion or 9.4 percent of total inward FDI stock in all 27 transition countries.

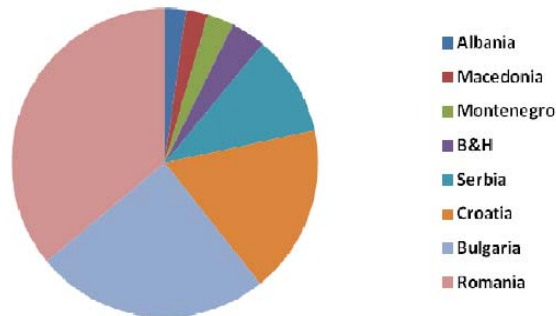
According to UNCTAD data, the countries with good success of FDI in our region are Romania, Bulgaria, Croatia and Serbia. Regarding this report, Romania had the most shares in the Balkans during 2000, but the situation improved for other countries after changes of political status.

Figure 1: Inward FDI stock in SEE, by country, in 2000



Source: (UNCTAD data, World Investment Report)

Figure 2: Inward FDI stock in SEE, by country, in 2010



Source: (UNCTAD data, World Investment Report)

The top five investors in Serbia are Austria, Netherlands, Greece, Germany and Norway. In hotel industry, the biggest investors are Falkensteiner Michaeler (FMTG) from Austria and stock company M.O.F. Falkensteiner Michaeler Tourism Group (FMTG) which is one of the

leading companies in tourism industry and operates in six European countries. The company has 27 four and five star Hotels & Residences.

Central and Eastern Europe are still important destinations for foreign capital investment, particularly in the hotel industry which has led to an increase in the number of hotels in the Balkans. As for the countries in the region, according to the Ministry of Foreign Economic Relations and European Integration, Montenegro has the largest share in foreign direct investment in tourism, and in the period 2001 to 2007 tourism revenues increased from 86 million Euros to 480 million Euros. This sector achieved the highest number of individual investments and Greenfield investments, including projects such as Porto Montenegro, which one of the largest marinas in the South-Eastern part of Europe (Министарство за економске односе са иностранством и европске интеграције, 2006). Russia still holds the leading position as the largest foreign investor in Montenegro with the share of 15.4%.

Table 2: Top 5 investors and their respective shares in brackets

Albania	2010	Greece (27.4), Italy (15.2), Austria (13.7), Canada (10.6), Turkey (10.6)
B&H.	2010	Austria (19.7), Serbia (18), Croatia (14.1), Slovenia (11.2), Russia (9.6)
Bulgaria	2011	Netherlands (21.9), Austria (16.5), Greece (7.7), UK (6.6), Cyprus (5.7)
Croatia	2011	Austria (21.2), Hungary (13.9), Germany (13.7), Netherlands (8.6), Luxembourg (5.4)
Macedonia	2010	Netherlands (16.5), Greece (12.9), Slovenia (12.4), Austria (11.1), Hungary (10.3)
Montenegro	2011	Russia (15.4), Italy (11.8), Switzerland (9), Hungary (8.4), Cyprus (8.2)
Romania	2010	Netherlands (20.7), Austria (17.8), Germany (12.2), France (8.3), Greece (5.7)
Serbia	2011	Austria (17.1), Netherlands (10.1), Greece (9.6), Germany (9.1), Norway (8.4)

Source: (WIIW FDI database)

2. Tourism in Serbia

For some countries in the region, tourism plays the main role in the economy. According to the latest UNWTO Barometer data, international tourist visits in the world for the period from January to August 2013 increased by 5% compared to 2012, reaching the figure of 747 million visitors. On monthly bases, a favorable growth of international tourism was recorded especially for June, July and August, with 6%, 3% and 5% growth respectively comparing to 2012. There was also an increase in the number of participants in international tourism in world regions. Best results are recorded in the Middle East with 7%, Europe 5%, in Asian countries 6 %, Africa 5% and 3% of America.

The Republic of Serbia has a favourable location on the Balkans and has become very popular destination for Western Europe tourist over the past few years (Радојковић и сар., 2013). The tourists from Austria, Belgium and Bosnia and Herzegovina hold the first place according to visits and overnight stays. Even in the period of summer holidays, their capacities reach 5,000 visits for the month of July.

Table 3: Number of tourists in Serbia, 2001-2012

	Number of tourists	Number of foreign tourists	Number of overnight stays	Number of overnight stays foreign tourists
2001	2,128	242	7,197	592
2002	2,209	311	7,206	738
2003	2,000	340	6,684	792
2004	1,971	391	6,643	851
2005	1,987	452	6,501	990
2006	2,006	466	6,592	1,016
2007	2,305	696	7,329	1,478
2008	2,265	645	7,334	1,399
2009	2,021	645	6,775	1,469
2010	2,001	684	6,413	1,453
2011	2,069	765	6,645	1,643
2012	2,080	810	6,485	1,796

Source: (National Bank of Serbia)

In July 2013, in accommodation facilities in the Republic of Serbia, 220,986 tourist arrivals were registered, which is an increase of 8.6% when compared to the same period in 2012. In relation to July 2012, the number of foreign tourist arrivals increased by 19.2%, while the number of domestic tourist arrivals increased by 1.1% (Статистички завод Србије, 2013). The number of nights and arrivals of foreign tourists remarkably increased from 2003 to 2008. The global economic crisis has had a negative impact on development of international tourism. As shown in Table 3, the number of tourists grew in 2008, while significant fall could be noticed in 2010, when the crisis influenced Serbian market the most. Rural tourism increased in Serbia in the last decade. (Жижковић и сар., 2011).

2. Hotel industry in Serbia

Hotel industry is still developing in Serbia. According to the latest data, 305 hotels were opened by 2013. Most of them are 2- and 3-star hotels, but there is an increased need for 4- and 5-star hotels in Belgrade and Novi Sad.

Table 4: Number of hotels in Serbia, 2013

No.	CATEGORY	TOTAL	NUMBER OF APARTMENTS AND ROOMS	NUMBER OF BEDS
1	HOTELS	227	14,215	23,630
2	GARNI HOTELS	70	1,376	2,112
3	APART HOTELS	8	315	983
4	DEPANSIONS	21	740	1,471
	<i>TOTAL 1+2+3+4</i>	<i>305 (WITHOUT DEPANSIONS)</i>	<i>16,646</i>	<i>28,196</i>
5	MOTELS	16	371	599
6	TOURIST RESORTS	3	189	342
7	APARTMENTS COMPLEXES	1	25	120
8	PENSIONS	3	78	117
	<i>TOTAL 1+2+3+4+5+6+7+8</i>	<i>328</i>	<i>17,309</i>	<i>29,374</i>

Source: (Ministry of Economy, Tourism sector)

Investing in Serbia's economy is of huge importance. Foreign investors can be either firms or individual entrepreneurs investing in tourism enterprises. The United States is the largest home country of international hotel chains, followed by the United Kingdom, France, Germany and Spain. With the exception of the French company Accor, there is a low presence of large international hotel chains in the least developed countries (WTTC, 2003).

Table 5: FDI inflow in the Republic of Serbia for the period 2004 to 2012

Sector	Investments (EURO)									Total
	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Hotels and restaurants	11,663	203	3,246	35,055	15,729	4,993	2,462	14,869	5,829	94,050

Source: (National Bank of Serbia)

Table 6 shows the picture of a favorable investment climate, especially if we compare the two biggest investments in the past few years such as Falkensteiner Hotel and Crown Plaza, whose values are more than 40 million Euros. Thanks to large investments and the arrival of international hotel chains, Serbia has become an attractive destination in the high category hotels. Expanding investments in the hotel industry in Serbia, whether it comes to domestic or foreign investment, has continued. The main reasons are:

- The number of trained employees have increased in hotel industry in Serbia,
- Old hotels have been upgraded to higher standards,
- Serbia is becoming an attractive destination for the arrival of new hotel chains,
- Increasing trend of tourism development in the country,
- Low tax rates for investors, and
- State support for joint ventures.

Table 6: Domestic and foreign investment in the hotel industry in Serbia

Project	Investor	Domestic/ Foreign	Year of investment	Total investment	Number of apartments and rooms
Art Hotel	Todor hotels	Serbia	2010	15 million EUR	55
Holiday Inn	Bank Turin Alen	Kazakhstan	2007	23 million EUR	142
Hotel Izvor	Alko grupa	Serbia	2010	35 million EUR	164
Crown Plaza Hotel	Delta Real Estate	Serbia	2012	40 million EUR	420
Falkensteiner Hotel	Falkensteiner Hotels&Residences	Austria	2012	45 million EUR	171
Hotel Tulip in Putnik	Metropol grupa	Russia	2007	7 million EUR	97
Hotel Excelior	Lampsa hotel	Greece	2008	9,3 million EUR	55

Source: (Authors research)

3. Case study: Crowne Plaza Hotel Belgrade

Due to political changes in Central and Eastern Europe, hospitality industry developed very fast in the last 2 decades. Most countries in this area are still developing because of economy restructuring, which increases work productivity, but the workforce is poorly paid compared to Western Europe, which attracted the investment of international companies. The acceleration of the economic growth in the region is considered to be the main factor for the arrival of some of the most famous international hotel chains. Due to the instability of political climate and regulatory environment, they prefer not to invest directly in those countries, but to make strategic alliances and develop. This is such an arrangement where operational control of an enterprise is vested by contract in another enterprise that performs necessary managerial functions in return for a fee.

International hotel business is a separate segment of hospitality industry characterized by high intensity of competition. In hotel industry there is a high differentiation of hotel strategies. Globalization and concentration (Лазич и сар., 2013) are main trends of modern international hotel business. Hotel chains market is becoming more popular.

However, the development of hotel industry at this moment is mostly associated with hotel chains. Global hotel chain business is a phenomenon of the last 30-40 years. It reflects the tendency of a hotel chain expanding to the international market to create a form of hotel business where every guest will receive the same level of service quality wherever the hotel chain is situated. These business models will define not only the network of organizational structure but will also influence the development strategy and boundaries of hotel chains as a form of organization. A business model is a feature of management organization in companies/management routine, explaining (1) the way business was created to meet customer needs, (2) the way market segments are identified, and (3) extraction mechanism of economic benefits from its operations. A business model is an architectural model of company business that can generate values for a customer. According to the author, the basic business model of international hotel chain development are the different types of business architecture of hotel chains (Радојковић и сар., 2013).

One of the biggest investments in the hotel industry in Serbia is the Crown Plaza Hotel Belgrade, whose investment amounts to €40 million. The Crowne Plaza is a brand of InterContinental Hotels Group, and appeared for the first time in the former Yugoslavia. It is domestic investment, where IHG provides their know-how and full support for thier operations. The hotel has 420 rooms and 14 conference rooms.

Business Development Strategy

The idea is to concentrate most of the guests in groups such as seminars, competitions and conferences. It aims at reshaping the hotel as MACE hotel and to use conference rooms and fill the capacity from Monday to Thursday. The promotional price is expected to cover the period from Friday to Sunday and special packages are to be offered to airline companies, sports teams and business people.

Motives entry IHG

Having in mind a favorable territorial location at the intersection of the main roads of Europe and Asia, the Republic of Serbia has become very popular destination for Western Europe tourists over the past few years. IHG is aiming to have many hotels in the region including Belgrade.

Employees

Hotel employs about 250 people, according to the following structure: 4 managers, 40 supervisors and assistants with a college degree, about 200 line employees with secondary or higher education. In order to transfer knowledge and experience to employees, there are 4 managers with international experience on the positions of Director of Finance, Manager of Front Office, Manager of Food and Beverage and Human Resources Manager.

According to the interview with the General Director of the Crowne Plaza Hotel in Belgrade, we conclude that introducing hotel chains in Serbia is substantial for the country. Quality of hotel management plays an important role in spreading experience and gaining new knowledge in high class hotels. Each hotel chain tries to offer services which are different from other chains' services in certain segments, but which at the same time present significant experience for a client, that is, present a level of satisfaction that a consumer experiences while staying at a particular hotel. Therefore, those hotel chains that offer a certain brand and guaranteed quality to their consumers will have the competitive advantage. Their brand (or brands) is recognizable among customers by its quality, price, means of providing service and other features of the particular chain. Service quality is an extremely important factor through which brand becomes internationally recognized.

4. Conclusion

In tourism, hotel industry is still the most attractive sector for both foreign and domestic investments. The global economic crisis has had a negative impact on development of international tourism. Low inflows of FDI in Serbia will have impact to the increased number of arrivals and tourists in the country. Most hotels in the Republic of Serbia are 2- and 3-star hotels while there is an increased need of international tourists for 4- and 5-star hotels in Belgrade and Novi Sad.

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